

BANGO**SOFTWARE AND COMPUTER SERVICES****BGO.L**

191p

Market Cap: £133.3m

SHARE PRICE (p)

12m high/low

273.5p/98p

Source: LSE Data**KEY INFORMATION**

Enterprise value	£128.7m
Index/market	AIM
Next news	AGM - May 18
Gearing	N/A
Interest cover	N/A

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FY17A results: Growth and scalability

Bango has announced FY17A results ahead of our forecasts, with financial performance once again demonstrating strong growth and platform scalability. Momentum remained strong during the year, with End User Spend (EUS) confirmed as having more than doubled but opex having grown by just 13%. The positive outlook statement will give confidence in the near-term financial performance. Our FY18E adjusted earnings estimates are unchanged following the release and FY19E forecasts are introduced for the first time.

- **FY17A results ahead of our forecasts, £4.8m cash position confirmed:** Bango reported FY17A revenue of £4.2m (+58%) and LBITDA of -£1.6m. We had forecast £3.7m and -£2.0m respectively. The FY17A closing cash position was confirmed at £4.8m.
- **Momentum remains strong:** EUS of £271.4m represents a more than doubling of the FY16A figure. Revenue growth was driven by the addition of new billing routes and increasing spend from existing routes. As highlighted at Bango's recent Strategy Day, several new technologies were launched during 2017, including Direct Carrier Billing (DCB) for physical goods, launched with Amazon Japan, and resale and bundling launched with Amazon Prime Video and Bharti Airtel in India. 2017 also saw a number of upgrades to the Bango Platform, with an API upgrade and new payment methods such as mobile wallets – with early launches in Japan (*Au*) and Nigeria (*9 Mobile*).
- **Improvement in profitability demonstrates platform scalability:** Alongside the impressive growth in the business, opex remained firmly under control, increasing by £680k, 13% YoY. This was the key driver of a £1.2m improvement in LBITDA. We note that Bango became EBITDA positive on a run-rate basis in Nov-17. The Bango Platform has been successfully tested at over £5bn of annual transaction volume, giving further confidence in the outlook for profits and positive cash flow.
- **Positive outlook statement:** With EUS having more than doubled over each of the last three years, management believe 2018 could see a similar performance. This will be accompanied with continuing investment in the Bango Platform and commercial relationships.
- **FY18E adjusted earnings estimates unchanged, 19E forecasts introduced.** Although our FY18E revenue and opex estimates are revised upward to account for Audiens, the net result is no change to adjusted earnings estimates. FY19E results are introduced for the first time. These are summarised below and detailed overleaf.

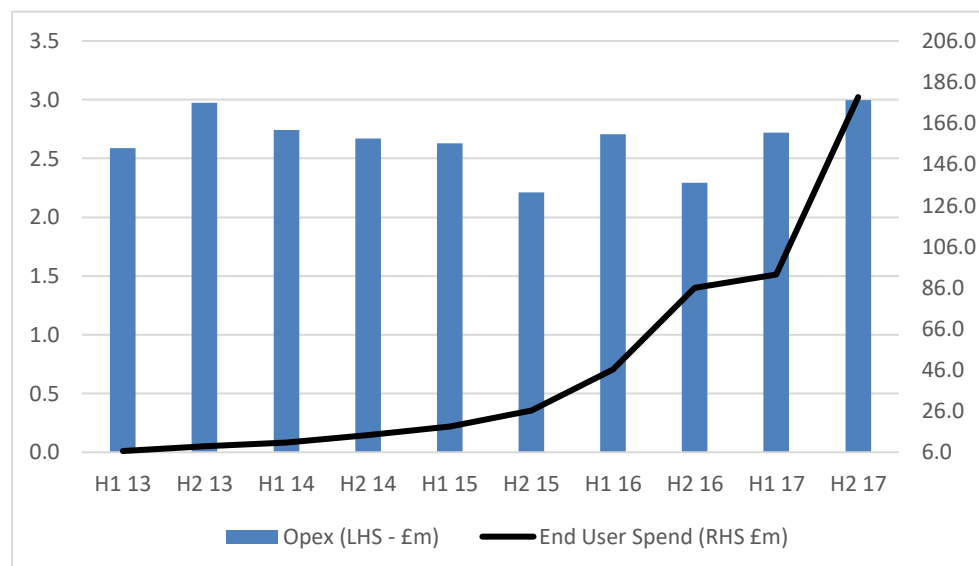
FYE DEC (€M)	2015	2016	2017	2018E	2019E
EUS (Non-GAAP)	44.7	132.3	271.4	540.0	1,404.0
Revenue	1.3	2.6	4.2	7.1	11.3
Adj EBITDA	(3.1)	(2.4)	(1.6)	1.0	4.3
Fully adj PBT	(5.0)	(4.1)	(3.6)	(1.0)	2.0
Fully adj EPS	(9.5)	(6.3)	(5.5)	(1.5)	2.8
EV/EBITDA	(40.9)	(53.1)	(82.1)	135.1	30.2
PER	N/A	N/A	N/A	N/A	68.1

Source: Company Information and Progressive Equity Research estimates

Growth and Scalability

Growth and scalability have been key highlights of Bango's recent financial releases. Below we present a summary of the historical trends in End User Spend and Opex.

Bango – growth and scalability (EUS and opex)



Source: Company Data

Growth has been driven by new payment routes and increased revenue from existing relationships. Put simply, *more payment routes + more users + more content*

Management has also made significant investment in new technology, including:

- DCB for physical goods with Amazon Japan (*Jun-17*)
- Resale and bundling with Amazon Prime Video and Bharti Airtel (*Jan-18*)
- Audiens (*acquired Jan-18*) provides an outlet for Bango to monetise internally generated data via its sale to third-party advertisers and advertising platforms.
- The launch of API version 5, with updates to Bango's value-added services, particularly Bango Boost and Bango Dashboard.

Note each of these were discussed in detail at Bango's recent Strategy Day, with further detail and analysis contained in our recent research report. *Bango: Doubling Down on Platform Leadership Strategy* published 07 February 2018.

As the chart shows, growth has been delivered without a commensurate increase in opex. Annualised EUS on an exit run-rate basis substantially exceeded £400m at the end of FY 2017, 12 times that of the H2 14A level. Over the same timeframe, half-yearly opex remained within a £2-3m range. Note, the EUS run rate exiting February 2018 was £465m/year.

Bango datacentres have been tested at a sustained transaction rate of over £5Bn/yr, over 18x FY17A reported EUS volume. We conclude from that statistic that the platform retains significant headroom before additional investment will be required.

Estimates

- Our revised forecasts reflect both the FY17A results announcement, and the Jan-18 Audiens acquisition and associated fundraising.
- Our increased FY18E EUS and revenue expectations reflect 1) more rapid contribution from new payment routes compared with our previous forecasts and 2) first revenue contribution from Audiens.
- In offset, we have also increased our expectation for FY18E opex, reflecting revised (higher) expectation of investment in the BP and commercial relationships.
- The net result is that adjusted FY18E EBITDA of £1m and adjusted PBT of -£1m are both unchanged from previous forecasts.
- FY19E estimates are published for the first time.

Financial Summary: Bango

Year end: December (£m unless shown)

	2015	2016	2017	2018E	2019E
PROFIT & LOSS					
EUS (Non-GAAP)	44.7	132.3	271.4	540.0	1,404.0
Revenue	1.3	2.6	4.2	7.1	11.3
Adj EBITDA	(3.1)	(2.4)	(1.6)	1.0	4.3
Reported PBT	(5.0)	(4.7)	(3.9)	(1.3)	1.7
Fully adj PBT	(5.0)	(4.1)	(3.6)	(1.0)	2.0
NOPAT	(2.6)	(2.9)	(2.0)	0.5	3.6
Reported EPS	(9.0)	(6.8)	(5.2)	(1.5)	2.8
Fully adj EPS	(9.5)	(6.3)	(5.5)	(1.5)	2.8
Dividend per share	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(3.5)	(2.6)	(0.7)	(1.0)	5.3
Free Cash flow	(4.1)	(6.0)	(2.2)	(1.9)	4.4
FCF per share	(7.8)	(9.2)	(3.4)	(2.7)	6.3
Acquisitions	0.0	0.0	0.0	(1.3)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	10.5	0.1	1.2	4.8	0.0
Currency effects	(0.1)	(0.1)	0.0	0.0	0.0
Net cash flow	5.9	(6.2)	(0.8)	1.6	4.4
Cash & equivalents	12.2	5.7	4.8	6.5	10.9
Net (Debt)/Cash	11.8	5.6	4.6	6.2	10.6
NAV AND RETURNS					
Net asset value	15.9	12.4	10.7	10.7	13.7
NAV/share	29.9	19.1	16.2	15.4	19.6
Net Tangible Asset Value	12.5	6.3	4.6	2.7	5.5
NTAV/share	19.3	9.7	7.1	3.9	7.8
Average equity	12.9	14.1	11.5	10.7	12.2
Post-tax ROE (%)	(37.4%)	(31.2%)	(29.8%)	(9.6%)	16.0%
METRICS					
EUS growth	77.5%	196.1%	105.1%	99.0%	160.0%
Revenue growth	(74.5%)	101.8%	58.2%	70.4%	59.1%
Adj EBITDA growth	(14.5%)	(22.9%)	(35.3%)	(160.8%)	346.7%
Adj PBT growth	(7.2%)	(18.6%)	(12.0%)	(71.3%)	(289.2%)
Adj EPS growth	10.8%	(33.0%)	(13.8%)	(72.9%)	(289.2%)
Dividend growth	N/A	N/A	N/A	N/A	N/A
Margin on EUS	2.9%	2.0%	1.5%	1.3%	0.8%
VALUATION					
EV/Sales	99.0	49.0	31.0	18.2	11.4
EV/EBITDA	(40.9)	(53.1)	(82.1)	135.1	30.2
EV/NOPAT	(49.3)	(44.0)	(63.8)	284.2	36.2
PER	N/A	N/A	N/A	N/A	68.1
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(4.1%)	(4.8%)	(1.8%)	(1.4%)	3.3%

Source: Company information and Progressive Equity Research estimates

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